CHAPTER

7

Market Conditions in Seattle's Light Rail Corridor

The general market conditions in Seattle's light rail corridor provide the economic context for the future development of the station areas. Understanding this context helps inform the choices of appropriate policies and strategies to encourage transit-oriented development. This chapter presents specific information on current and forecasted population and housing, employment and commercial floor area, median household incomes, type of employment, land values, and development capacities. For more detailed information on individual station areas, see Chapter 10 of this Report.

Market conditions were analyzed for groups of stations along the light rail corridor, not for individual stations, because some station areas overlap or occupy a single land market area. Eleven market segments are analyzed along the light rail corridor, and each segment contains one to six stations. Market segments share similar characteristics, like land use, market values, development trends, neighborhood boundaries, and densities.

The boundaries between market segments are based on the City of Seattle's Traffic Analysis Zones (STAZs). STAZs located within one half-mile of the rail alignment are the basis of the market segments. Segments are roughly two to four square miles in size, and they do not overlap (see Figure 7-1).

POPULATION AND HOUSING

CURRENT POPULATION AND HOUSING

Population within the market segments along the light rail corridor has grown faster than in the rest of the city, and portions have grown at a faster rate than the regional average (see Table 7-1). During the 1980s, population in the Puget Sound region as a whole grew at a rate of 2% per year, but population within the light rail corridor grew at only 0.6% per year. Within the city, the population grew at an even slower rate of 0.4%. Between 1990 and 1997, however, while the overall regional growth rate fell to roughly 1.7%, growth rates in the city and the light rail corridor accelerated. This acceleration has been particularly apparent in the South Lake Union and Downtown market segments, where population growth rates in the 1990s averaged 3.8% and 2.2% per year, respectively.

Throw Page – Figure 7.1: Market Segments Map

Table 7-1: Current Population and Historic Growth Rates

Market Segment	1997 Estimated Population	Growth Rates	
		1980-1990	*1990-1997*
1. Northgate	14,795	1.6%	1.1%
2. Greenlake/Roosevelt	15,281	0.3%	0.2%
3. University	23,099	0.5%	0.3%
4. Capitol Hill	29,370	0.2%	0.6%
5. South Lake Union/Denny Regrade	9,663	0.4%	3.8%
6. Downtown	11,399	1.1%	2.2%
7. Duwamish	236	6.0%	1.5%
8. North Rainier/Beacon Hill	17,481	0.3%	0.7%
9. Columbia City	12,224	0.4%	0.3%
10. Holly Park/Brighton/Dunlap	13,775	0.9%	0.3%
11. Rainier Beach	11,211	0.5%	0.5%
Total for Market Segments	**158,534**	**0.6%**	**0.8%**
City of Seattle	**536,600**	**0.4%**	**0.6%**

Source: ECONorthwest calculations based on PSRC and Census data.

In 1997, slightly more than one-quarter of Seattle's 536,600 residents lived within the market segment areas that make up the light rail corridor. Within this corridor, more than one-third of the total population lived in the densely populated University District and Capitol Hill market segments.[1]

Almost 70% of the new housing units constructed in the corridor from 1990 to 1997 were built in the Capitol Hill, South Lake Union/Denny Regrade, or Downtown Seattle markets (see Table 7-2). These new units were virtually all multi-family housing, developed in markets that are perhaps the most urban in the city. The most active areas of development overall during the first part of the 1990s involved the Downtown market segment and the five segments to the north.

In addition to the 4,800 housing units built in the north corridor from 1990 to 1997, data indicate that in the proposed station areas north of Downtown, another 1,800 multi-family units are currently moving through the development pipeline. Moreover, apartment vacancy rates indicate that demand for multi-family housing in the northern corridor is strong. According to data from Dupre & Scott Apartment Advisors, current apartment vacancy rates from Northgate to Downtown range from 1.3 to 3.9%, and average monthly rents for a two-bedroom/one-bath apartment range from $0.85 per square foot (Northgate market segment) to $1.25 (Downtown market segment).

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[1] When discussing population and housing throughout this analysis, the Duwamish market is excluded because it is essentially a non-residential market segment, with little current population and little or no projected growth in population/housing.

Table 7-2: Growth in Housing Units: 1990 to 1997

Market Segment	1990 Occupied Dwelling Units	% Multi-Family	1990 - 1997 New Units	% Multi-Family
1. Northgate	6,853	57%	659	87%
2. Greenlake/Roosevelt	7,126	34%	139	73%
3. University	7,739	80%	207	48%
4. Capitol Hill	18,150	94%	883	96%
5. South Lake Union/Denny Regrade	5,195	89%	1,803	99%
6. Downtown	4,694	96%	1,169	99%
7. Duwamish	3	100%	0	N/A
8. North Rainier/Beacon Hill	6,554	46%	353	68%
9. Columbia City	4,356	31%	100	2%
10. Holly Park/Brighton/Dunlap	4,387	39%	97	0%
11. Rainier Beach	3,940	30%	111	0%
TOTAL	**68,997**	**67%**	**5,519**	**85%**
Source: ECONorthwest calculations based on PSRC and Census data.				

Based on current trends, it appears unlikely that private multi-family developers will be attracted to make large investments in these markets in the near future. However, public and non-profit projects (e.g., Holly Park redevelopment, Noji Gardens) will be built in the area. The prospects for investment with a light rail system and supportive policies is discussed in Chapter 8.

Table 7-3: 1998 Apartment Vacancy Rates and Rents

Market Segment	1998 Vacancy Rate	1998 Average Monthly Rent	Rent per Sq. Ft for 2 Bed /1 Bath
1. Northgate	2.5%	$654	$0.85
2. Greenlake/Roosevelt	1.3%	$774	$1.09
3. University	1.8%	$652	$0.96
4. Capitol Hill	1.3%	$678	$1.03
5. South Lake Union/Denny Regrade	3.9%	$881	$1.25
6. Downtown	3.9%	$881	$1.25
7. Duwamish	N/A	N/A	N/A
8. North Rainier/Beacon Hill	6.0%	$515	$0.71
9. Columbia City	6.0%	$515	$0.71
10. Holly Park/Brighton/Dunlap	6.0%	$515	$0.71
11. Rainier Beach	6.0%	$515	$0.71
Source: Dupre + Scott Apartment Advisors, Spring 1998. The data reflect the vacancy rates and rents within the larger area tracked by Dupre + Scott within which the market segments lies.			

HOUSEHOLD INCOMES

When median household incomes for the market segments are compared (see Table 7-4), any perceived disparity between the north and south segments is lessened. In fact, the single segment with the lowest median household income of the group is Downtown Seattle, followed by the University District, Capitol Hill, and South Lake Union/Denny Regrade. While many people recognize that income distribution in areas like Downtown and the University District is extreme, it may surprise them to find that in both markets the lower mode appears to be dominant.

LAND VALUES

To examine land values in the light rail corridor market segments, two approaches were used. First, to determine the current value of land in each market relative to the rest of the corridor, the 1997 assessed value of land per square foot for each parcel within the corridor (as reported by the King County Assessor's Office) was examined. Second, to evaluate how values within markets have changed over time, the actual prices paid in real estate transactions from 1985 through 1997 were analyzed to determine the growth trend for each category.

Table 7-4 : Estimated Median Household Incomes by Market Segment

Market Segment	1996 Median Household Income	% Change from 1989
1. Northgate	$38,881	41%
2. Greenlake/Roosevelt	$42,384	41%
3. University	$28,521	40%
4. Capitol Hill	$26,409	42%
5. South Lake Union/Denny Regrade	$28,421	41%
6. Downtown	$20,688	44%
7. Duwamish	N/A	N/A
8. North Rainier/Beacon Hill	$34,640	38%
9. Columbia City	$35,056	41%
10. Holly Park/Brighton/Dunlap	$32,328	41%
11. Rainier Beach	$40,954	43%
City of Seattle	**$40,900**	**39%**

Source: ECONorthwest, using a weighted-average from census tract data.

As Figure 7-2 illustrates, land values are relatively high north of Downtown and they increase with proximity to Downtown. Along the rail corridor to the south, values are generally much lower.

It is worth noting the relation of assessed value of single-family homes to that of multi-family residences. In areas north of Downtown, land that is zoned for multi-family is generally assessed at a higher value than land that is zoned single-family. In the markets in the south corridor, the opposite is true; land that is zoned for single-family use is more highly valued than land in multi-family zones.

Throw Page: Figure 7-2:   Average Assessed Value of Land by Zoning Category

When trends in the growth of sales prices are examined, it is apparent that the behavior of growth rates from one market to another depend heavily on applicable zoning. For single-family parcels, the rates of increase over the past 13 years have been relatively consistent throughout the light rail corridor. For those markets that include single-family parcels, the 1985-97 growth trend is between 6.2 and 8.1% for all markets. On the other hand, for parcels zoned for commercial/downtown or multi-family uses, no such pattern exists. When transactions involving each of these categories are analyzed, growth in the price paid per square foot of land varies much more widely from one market to another.[2]

DEVELOPMENT CAPACITY

One measure of capacity for new development at the corridor level is the City's designation of vacant or redevelopable land (see Table 7-5). In the City's analysis, these designations were determined two ways: (1) for single-family and multi-family residential zones with an estab-

Table 7-5: Maximum Development Capacity for New Housing Units and Floor Area on Vacant or Redevelopable Land under Current Zoning

Market Segment	Maximum New Housing Units on Vacant and Redevelopable Land	Maximum New Commercial Floor Area on Vacant and Redevelopable Land (square feet)
1. Northgate	$11,283	11,133,091
2. Greenlake/Roosevelt	$2,869	2,080,159
3. University	$6,751	5,010,604
4. Capitol Hill	$12,172	4,330,244
5. South Lake Union/Denny Regrade	$23,655	21,136,768
6. Downtown	$34,459	29,622,758
7. Duwamish	0	2,381,741
8. North Rainier/Beacon Hill	$6,807	3,855,224
9. Columbia City	$2,991	2,461,736
10. Holly Park/Brighton/Dunlap	$4,685	1,653,536
11. Rainier Beach	$4,006	3,856,490
City of Seattle	**$109,678**	**83,665,861**

Source: ECONorthwest calculations based on the City of Seattle's development capacity analysis.

Note: Figures represent maximum developable capacity given current zoning under the two most extreme cases calculated by the City: 1) if all redevelopable land available for residential uses developed as housing, or 2) if all redevelopable land available for commercial uses developed as commercial. Absent changes in current zoning, it is not possible to achieve both development scenarios simultaneously. Rather, these figures should be viewed as upper bounds on the possibilities for residential or commercial development.

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[2] This variation might be due, in part, to a statistical phenomenon in which the smaller numbers of transactions in these categories allow unusually high or low prices in a few transactions to influence the overall trend.

lished density limit, the number of dwelling units currently on a site was compared to the maximum number allowed under the zoning. Ratios comparing existing units relative to maximum potential units were used to determine which sites were redevelopable; and (2) for other zones, a comparison was made between the value of improvements on a particular parcel and the value of the land itself. For most land uses, parcels were identified as redevelopable if the assessed value of the improvement was less than 50% of the assessed value of the land.

EMPLOYMENT AND COMMERCIAL SPACE

EXISTING EMPLOYMENT

With roughly 318,000 jobs within the eleven market segments along Seattle's light rail corridor almost 70% of the total employment in the City of Seattle currently falls within the area of market analysis (See Table 7-6). Of this percentage, the majority of jobs are located within two of the market segments: South Lake Union and Downtown Seattle.

The Puget Sound Regional Council estimates that, throughout the 1980s, employment in the Puget Sound region grew from 1.11 million to 1.56 million jobs, an annual growth rate exceeding 3.4%. In comparison, Seattle experienced substantially slower growth during the same period, growing at a rate of 2% per year. Downtown was the only area that kept pace with regional growth. In fact, new jobs in Downtown Seattle accounted for the vast majority of the corridor's total employment growth during the 1980s (see Table 7-6).

Table 7-6: Estimated Current Employment and Historic Growth

Market Segment	1997 Estimated Employment	1980 to 1990 Annual Growth Rate
1. Northgate	13,817	2.4%
2. Greenlake/Roosevelt	3,356	1.6%
3. University	34,494	0.3%
4. Capitol Hill	26,692	0.6%
5. South Lake Union/Denny Regrade	47,293	1.1%
6. Downtown	147,353	3.4%
7. Duwamish	21,977	0.4%
8. North Rainier/Beacon Hill	13,000	1.0%
9. Columbia City	3,902	1.4%
10. Holly Park/Brighton/Dunlap	1,691	3.9%
11. Rainier Beach	4,322	1.0%
Total	**317,897**	**2.07%**
City of Seattle	**469,654**	**1.97%**

Source: ECONorthwest calculations based on Washington State Department of Employment Security database of covered employment and figures reported by the PSRC in its 1995 Population and Employment Forecasts for the Central Puget Sound Region.
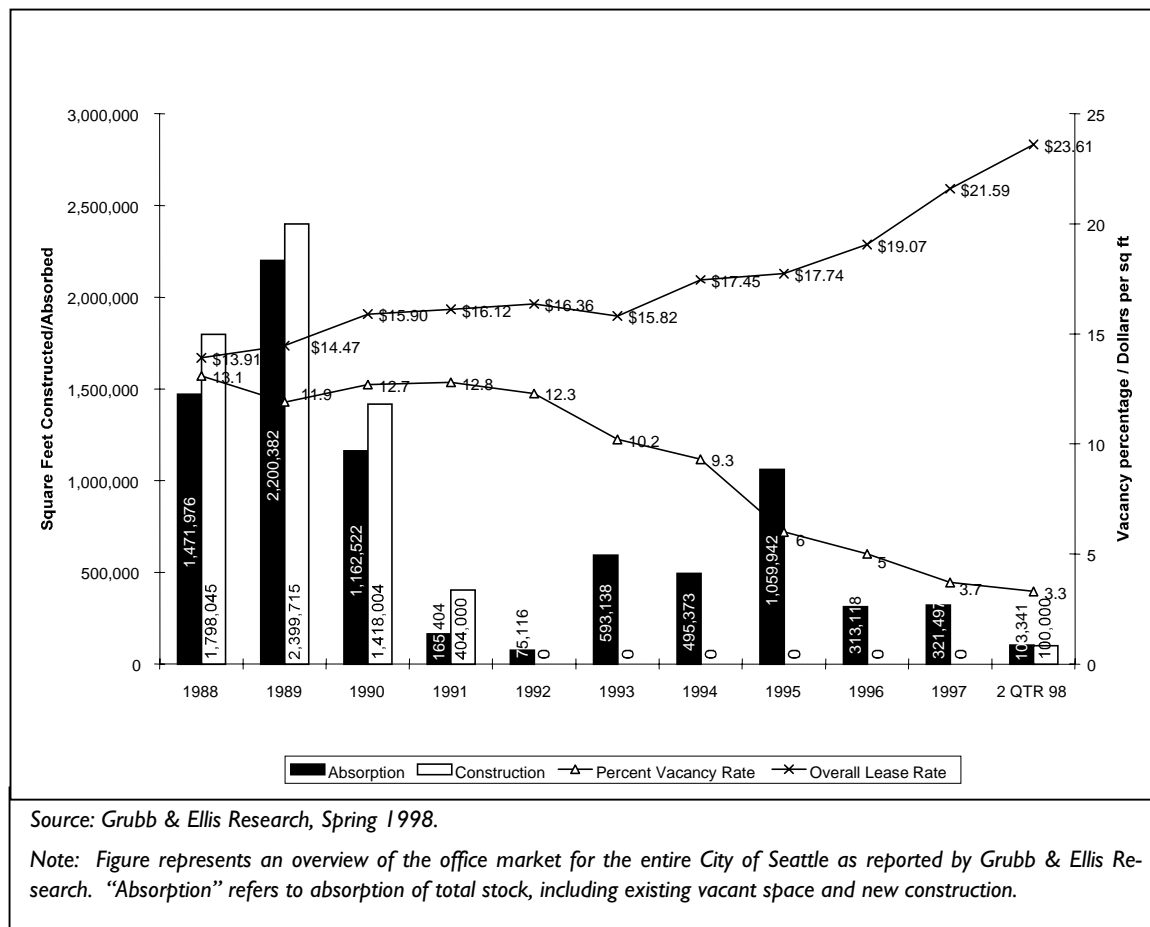
Within the light rail corridor, most employment is in four sectors - trade, services, FIRE (finance, insurance, and real estate), and government. From one market segment to another, different combinations of these sectors tend to dominate. In the University market segment, a combination of trade and University of Washington employment comprises almost 75% of total employment in that segment. In Downtown Seattle, the contributions of the four dominant sectors are more balanced. South of Downtown, construction and manufacturing represent a larger share of the employment total.

COMMERCIAL FLOOR AREA

During the 1980s and the early 1990s, total office space in Seattle grew significantly. Since 1991, additions to office space in the city have been minimal. Since the early 1990s, continued absorption of the existing floor area has caused vacancy rates to fall dramatically and average rents to increase.

Figure 7-3: Overview of Downtown Seattle Office Market: 1988 – 1998 (Class A & B Properties)

Source: Grubb & Ellis Research, Spring 1998.

Note: Figure represents an overview of the office market for the entire City of Seattle as reported by Grubb & Ellis Research. "Absorption" refers to absorption of total stock, including existing vacant space and new construction.

In Downtown Seattle, second quarter 1998 lease rates for Class A & B properties averaged $25.83 per square foot (see Figure 7-2). In other areas of the city, average commercial lease rates are lower, ranging from $17.52 (in Pioneer Square) to $18.53 (in North Seattle) to $21.42 (in the Denny Regrade). Vacancy rates in the Downtown and near northern portion of the light rail corridor are less than 5% and decreasing, while in North Seattle they have remained relatively stable for the past three years at around 7%.

As Table 7-7 illustrates, commercial floor area in the light rail corridor totaled more than 175 million square feet in 1997. The majority of this space is located within the market segments in the center of the corridor, from University to Duwamish. In the near future, projects currently in the development pipeline in the station areas north of Downtown alone are expected to introduce more than 850,000 square feet of new commercial floor area. This figure is based on the City's database of current permit activity; it does not include major institutional (i.e., hospital, University of Washington campus) projects.

Given the fundamentals of the current real estate market in the central corridor, with generally low vacancy rates and increasing rents, it is likely that more commercial space will be developed. In the markets south of Downtown, conditions are weaker. From North Rainier/Beacon Hill through Rainier Beach, only 47,000 square feet of commercial space is currently in the development pipeline.

Table 7-7: 1997 Floor Area

Market Segment	Gross Floor Area (square feet)
1. Northgate	7,401,732
2. Greenlake/Roosevelt	5,413,030
3. University	12,742,699
4. Capitol Hill	29,303,152
5. South Lake Union/Denny Regrade	24,349,180
6. Downtown	65,346,451
7. Duwamish	14,209,781
8. North Rainier/Beacon Hill	7,914,609
9. Columbia City	2,607,865
10. Holly Park/Brighton/Dunlap	2,366,488
11. Rainier Beach	3,722,312
Total	**175,377,299**

Source: City of Seattle using 1997 Assessor's Database

Note: The above figures represent the sum of Gross Floor Areas reported in the 1997 Assessor's database. Per the conventions adopted in the City's database used for analyzing development capacity, floor area includes all commercial and industrial floor area and rented multi-family apartments . It does not include single family units nor condominiums. As a consequence of this practice, market segments with high numbers of apartments, like Capitol Hill, also exhibit relatively high ratios of floor area to employment. For a detailed breakdown of floor area by zoning for each market segments, see technical appendices included in ECONorthwest's August, 1998 report, available from the Strategic Planning Office.

In summary, market conditions in downtown and areas north of downtown could potentially generate transit-oriented development. The strong population growth and expansion of multi-family housing indicate that additional mixed-use high-density residential dwellings could be built near stations. Also, strong employment growth and extensive development of commercial floor area suggest that transit-oriented offices and retail could be supported. South of downtown, weaker market forces suggest that transit-supportive development may not have a market in the immediate future. Strong policies complimented by supportive infrastructure and public investment and assistance, will be necessary along the southern alignment to encourage appropriate development in station areas. The effects of such initiatives are addressed in the next chapter.